

Lifelong Education Opportunities

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The Honorable Elaine L. Chao

U.S. Department of Labor

Secretary of Labor

Testimony

Chairman Enzi and Members of the Committee:

I am pleased to have the opportunity to testify before you today with my distinguished colleague, Secretary of Education Margaret Spellings, and discuss the President's proposals to enhance the nation's workforce investment system.

Today, our country finds itself in a situation unlike any we have experienced in our history. Advances in the fields of communication, technology and travel have effectively removed national borders as barriers to global commerce. Competition now comes from the company across the ocean as well as the company across the street.

The United States has been known as the leader in technological innovation. We invented computer operating systems, the Internet and the Global Positioning System. However, there are signs that we are facing more serious competitive challenges from new centers of innovation. For example:

- Foreign-owned companies and foreign-born individuals account for nearly half of all U.S. patents.
- In 2003, China overtook the United States as the world's leading destination for direct foreign investment.
- And today, Asian countries now spend as much on nanotechnology as the United States.

To ensure that we remain the world leaders in the 21st century innovation economy, we must face these challenges. We must look at the systems and structures that support and feed our economy and ask if they are equipped to handle the demands of the global economy.

Throughout history, the driving force of the American economy has been the ability to nurture new ideas that result in job creation and prosperity. In this generation, as in the past, American entrepreneurs and innovators have drawn on our well-educated workforce, our large and diverse economy, our technological capability and our financial sophistication to create the new industries and jobs that make America grow and prosper. The economy is healthy and growing, as evidenced by the 3.1 million new jobs that have been created since May 2003. As the economy grows, jobs emerge that demand higher skills than ever before. How can we get ready to meet the workforce needs of the future to ensure that we maintain our competitive advantage in the global economy?

We maintain our competitive advantage by increasing the skill levels of Americans. The needs of the 21st century economy are very different than those we have encountered in the past. Today's changing workforce needs reflect the economy's significant transformation. Industries such as manufacturing and retail now need workers who understand computers and robotics and supply chain management. Fields such as health care and construction need more technical and skilled labor than ever before. Newer industries – for example, biotechnology and geospatial technology – have emerged, and

others that are today just the gleam in the eye of some entrepreneur will soon emerge. The fastest growing jobs of the future will need to be filled by "knowledge workers," who have specialized skills and training. In fact, the demand for knowledge workers is already growing at an astonishing pace.

As the demand for workers with specialized skills and training grows, some economists fear that we are facing a "skills gap," a situation in which the demand by employers for skilled workers would outpace the supply. We already have heard from companies that are having difficulty filling jobs with workers who have the skills they require. Fields like health care, information technology, and advanced manufacturing have jobs and solid career paths left untaken due to a lack of people qualified to fill them.

The growing need for knowledge workers comes at a time when the labor pool as a whole is growing much more slowly as a result of the aging and retirement of the baby boom generation in combination with other demographic changes. In fact, given current retirement trends, combined with lower birth rates in recent years, the aging and retirement of the baby boom generation will likely result in labor shortages in some industries and geographic areas. Furthermore, employers are losing their most experienced workers just as labor force growth is slowing, with the result that shortages of workers with the right skills needed by employers could become common.

In a knowledge-based economy like ours, a top priority for all of us must be to ensure that we have the skilled workforce we need to spur economic growth and productivity. The success of workers today depends on opportunities for a continuum of education and training. It starts with a solid foundation in math, science, and communication skills learned in school. Our children must have a solid foundation in the basics if they are to succeed in the 21st century workforce. The No Child Left Behind Act should help enormously, but more needs to be done, particularly at the high school level. President Bush has proposed an initiative to raise student achievement and narrow achievement gaps in our nation's high schools, expanding on the success of the No Child Left Behind Act. We know that when schools and teachers are held accountable for results, the performance of their students improves. It is now time to extend this principle beyond grade schools to our nation's high schools.

Gaining a strong educational foundation in school is critical, but we also know that it takes more than a high school education to succeed in the new economy. In fact, the fastest growing jobs, on average, require a postsecondary credential, that is a vocational certificate or other credential or an associate or higher degree. These are the jobs that will drive innovation in the world economy and determine which countries will lead that economy. Competency in a single skill will no longer last a lifetime. Workers today must commit themselves to lifelong learning and to continually upgrading their skills. Our postsecondary education and training systems must provide them with opportunities to do so.

Our postsecondary education and training institutions need to ensure they are providing students with relevant, marketable skills. We need a wide variety of choices to provide these skills – not only two-year and four-year degree programs, but apprenticeship programs in the skilled trades and other professions, and job training leading to an industry-recognized credential or certification. Additional support for lifelong learning will be available through the President's proposals to strengthen the Pell Grant program and a new Loans for Short-Term Training program, which the Departments of Education

and Labor would jointly administer and which would help dislocated, unemployed, transitioning, and older workers, among others, obtain the skills needed to succeed in our knowledge-based economy.

The private sector makes an enormous investment both in training new workers as well as keeping current the skills of those already on the job. The investment of the private sector in employee education and training reflects its understanding that the investments made in improving the skills of the workforce translate into a competitive advantage for the nation.

The workforce investment system also plays an important role in preparing a skilled workforce. The Workforce Investment Act of 1998 (WIA) was groundbreaking legislation that promoted important improvements in the delivery of employment and training services nationwide through its One-Stop delivery system. Now our challenge is to take those reforms a significant step further to promote further innovation, to strengthen the One-Stop Career Center system to better serve workers and businesses, and to make the system even more responsive to the needs of local labor markets.

In many respects, our current “stovepipe” approach to workforce investment is still reflective of its social program roots of 50 years ago, but today’s economy requires more than simply filling job orders. Like the education system, the workforce investment system must continuously adapt to the changing economy.

Many of the problems in the current system lie with the design of the system itself. We know that a workforce investment system with over a dozen different funding streams, each with separate rules, reports and definitions cannot be effective in meeting the demands of the worldwide economy. Such a system will always be focused on the barriers to workforce solutions rather than the solutions themselves. And, such a system will always be more concerned about how much each program funding stream is contributing and who is serving what group of the population, than about solving the nation’s workforce challenges. Employers will never participate fully, or enthusiastically, in such a system.

So what is the solution? It is a flexible, integrated system with strong state leadership and effective local execution and customization. It is a system where states can move resources to address regional needs and local officials can work with employers to preserve jobs. Finally, it is a system with the leadership and vision to act as a catalyst for economic development.

Although we often speak of the American economy as a whole, the nation is made up of local labor markets that are unique. The local economy in New York City looks quite different than that of a rural area in Tennessee. We must design a flexible workforce investment system that empowers state and local officials to create workforce solutions customized to that area’s workers and employers. We must make certain that outstanding plans for innovative strategies are not thwarted by the maze of conflicting funding streams, program eligibility requirements, reporting systems and performance measures. This approach to workforce investment is at the heart of the President’s High Growth Job Training Initiative, launched by the Department of Labor in 2002. The High Growth Job Training Initiative identifies high-growth businesses and industries, evaluates their skill needs, and ensures that workers are being trained with the skills these rapidly expanding businesses require. Under this initiative, the Department has awarded \$164.8 million in 88 grants for innovative training programs in high growth industries such as health care,

biotechnology, energy, information technology, and advanced manufacturing. Grants are given to partnerships that include the workforce investment system, business and industry, community colleges and other education and training providers, and economic development entities working collaboratively to develop industry-specific workforce solutions. The results, products, and knowledge gained from these demonstration projects are disseminated widely to the workforce system and our strategic partners in business, industry, and education. By training workers with skills that are in demand, more workers will be able to obtain quality jobs with higher wages and enhanced career opportunities. At the same time, employers will be able to fill critical workforce needs.

The President's Community College Initiative, which provides for Community-Based Job Training Grants, builds on the High Growth Job Training initiative. Through these competitive grants, the workforce investment system will partner with community colleges to provide an innovative approach to workforce investment that responds to the changing 21st century economy. For FY 2005, the Congress approved and financed this new initiative, and the first grants will be awarded beginning in the summer of 2005. This Community College Initiative will help fully utilize the expertise of America's community colleges to better train workers for jobs in high growth sectors in local communities.

The flexibility, partnerships, and demand-driven focus of these initiatives are also at the heart of President Bush's proposal for comprehensive reform of our nation's job training system. The principles underlying these reforms reflect a new vision and new approach to workforce investment that will bring the system into the 21st century.

First, we must give states and local communities maximum flexibility and authority to design a workforce system that meets their needs. The centerpiece of the President's proposal for job training reform is the consolidation of the WIA Adult, Dislocated Worker, and Youth and the Employment Service funding streams into a single grant to states. Governors would have the option of including the State's resources from an additional five programs into that single grant. These programs are the Veterans' Employment and the Trade Adjustment Assistance training programs, administered by the Department of Labor; the Vocational Rehabilitation and the Adult Education programs, administered by the Department of Education; and the Food Stamp Employment and Training program, administered by the Department of Agriculture. Together, they represent over \$7.5 billion in Federal resources. The consolidated grant would have a single State Integration Plan and a single performance and reporting system, thereby simplifying planning and reporting requirements. While program-specific requirements will be minimized, states will not be permitted to reduce participant levels for targeted populations such as veterans and individuals with disabilities.

One practical indicator of the need for reform and greater flexibility of which I have been aware is in the overwhelming number of requests for WIA waiver authority. Forty-one states have requested 162 waivers to create a workforce investment system that is responsive to the needs of their economies. Under current law, in order for states to implement a workforce training program that better meets the needs of their citizens, they have to ask the Federal government for permission, through the waiver process. That is not an effective strategy for remaining relevant in the new economy. The consolidation of Federal job training programs will remedy this. It will also empower states to train more workers, reduce administrative overhead, achieve better results, and design workforce

investment systems that train workers for jobs in the 21st century economy.

Accountability is a second principle of the President's job training reform proposal. In exchange for greater flexibility for states and local officials, we will demand greater accountability. The performance measures that were begun under WIA will be simplified and improved and the incentives and sanctions will be strengthened. States will be held accountable for performance on three primary outcome measures – entered employment, retention in employment, and earnings gains. States will set increasingly rigorous annual performance milestones towards the goal of, within ten years, placing every person who receives Federally-funded training in a job. This is an ambitious goal, but it also reflects what the workforce investment system should aspire to – that all workers receive the job training and other services that they need to find and retain a job.

Third, the overhead costs of the system must be reduced. Layers of bureaucracy and regulatory loopholes have resulted in a system that focuses too much money on infrastructure overhead, and trains too few workers. We need to more accurately define what are acceptable administrative costs, and put a greater emphasis on training. By eliminating unnecessary overhead and simplifying administration through the consolidation of job training programs, we can achieve \$300 million in savings that can be used to train an additional 100,000 workers.

Fourth, we must create a more effective governance structure by enhancing the role of state and local officials. The workforce investment system is currently administered with too much micro-management at the Federal level. What looks good on paper in Washington, DC, does not always play out well in the communities across the country. One key reform in this area is streamlining the membership requirements of State and Local Workforce Investment Boards. One-Stop partner programs would assume a stronger role on the State Board to ensure their investment in and commitment to an integrated system. Local Board membership would be streamlined to provide an increased voice for business representatives, community groups and worker advocates. These changes will create State and Local Boards that are able to more effectively make the policy and planning decisions that shape the nation's workforce investment system. Fifth, we must take steps to strengthen the One-Stop Career Center System. The One-Stop Career Centers are the foundation of the workforce investment system, but the funding for the operation of those centers is uncertain in many local areas. Dedicated One-Stop infrastructure funding from the One-Stop partners determined at the state-level would alleviate a great deal of the current local negotiation issues around operations and allow local areas to focus on what is most important – meeting the service needs of workers and employers.

Also, the One-Stop system must be able to provide all the services that individuals need to find jobs and upgrade their skills, and to serve all populations, including those with the greatest barriers to employment. One-Stop Career Centers should be authorized to offer a wider range of services for low-wage workers and directed to remove barriers to serving targeted populations, including older workers and individuals with disabilities. In addition, we must remove the obstacles to serving incumbent workers, as the 21st century economy requires American workers to continually upgrade their skills.

Finally, individual choice should be enhanced in the workforce investment system through the use of Innovation Training Accounts. These accounts will allow individuals to combine a broad range of public and private training resources through a single, self-

managed account. Individuals will be able to choose the training that best meets their needs, including longer-term training that is necessary for today's high skilled jobs. Innovation Training Accounts provide workers with ownership over the education and training they pursue, so that they can take advantage of the opportunities that the 21st century economy has to offer.

Another important vehicle for providing individual choice for American workers is Personal Reemployment Accounts (PRAs). PRAs are a flexible approach to provide unemployed job seekers with more control over their access to training and services and help them return to work quickly. The Department of Labor is currently administering PRAs on a small scale through a demonstration project in seven states and proposes that this be a service option in WIA when it is reauthorized. PRAs provide unemployed individuals with up to \$3,000 to purchase intensive career, job training and supportive services from One-Stop Career Centers, the marketplace, or a combination of the two. Workers who find new jobs quickly and retain those jobs for six months will receive a reemployment bonus.

These key reforms will produce a workforce investment system that is responsive and agile enough to anticipate and respond to the opportunities presented by the 21st century economy, thereby promoting the success of both American workers and businesses.

Thank you for this opportunity to discuss with you the President's proposal for reauthorization of the Workforce Investment Act of 1998. I would be happy to respond to any questions that members of the Committee may have.